

Splitting Federal Income Tax Refunds

Important Information for IRS Partners

Taxpayers will have more options and flexibility for choosing how to receive their 2006 federal income tax refunds. In addition to the two previous refund options — direct deposit to one account or receiving a paper check — taxpayers can now opt to split their refunds among two or three checking or savings accounts with U.S. financial institutions, regardless of which form in the 1040 family they file (except Form 1040-EZ-T, *Claim for Refund of Federal Telephone Excise Tax*) or whether they file electronic or paper returns.

This change is partly in response to advocacy by IRS partners and the *Refunds to Assets: Splitting Refunds and Building Assets* study, which found that one of three taxpayers, who were offered the choice, opted to direct part of their refunds to savings accounts. For many, it was their first saving experience with a financial institution.

Split refunds also may help some taxpayers reduce their reliance on refund anticipation loans and keep more of their refunds. Regardless of the taxpayer's filing method — electronic or paper — direct deposit gives them faster access to their funds than a paper check.

Filing Method	Direct Deposit Refund Received	Paper Check Refund Received
e-file	Within 2 weeks	Within 3 weeks
Paper	Within 5 weeks	Within 6 weeks

You can help your clients maximize their refund options, ensure their funds arrive as intended, and begin asset building by:

1. Alerting your clients about their split refund option prior to tax preparation.

Now your clients can send part of their refund to checking for immediate needs and part to saving for future needs, but, to exercise this option, they must establish accounts with U.S. financial institutions before preparing their returns.

The IRS will electronically deposit a refund to any of a taxpayer's checking or savings accounts

with U.S. financial institutions — including Individual Development Accounts — providing:

- The taxpayer supplies accurate account and routing numbers; and
- The financial institution accepts direct deposits for the type of account designated.

2. Encouraging clients to bring their account and routing numbers for return preparation and to double-check the accuracy of account and routing numbers entered on tax returns.

The IRS assumes no responsibility for taxpayer error, which could result in different scenarios:

- If a taxpayer omits a digit in the account or routing number of an account and the number does not pass the IRS validation check, the IRS will mail the taxpayer a check for the entire refund;
- If a taxpayer incorrectly enters an account or routing number and the designated financial institution rejects and returns the deposit to the IRS, the IRS will issue a check for that portion of the refund; or
- If a taxpayer incorrectly enters an account or routing number that belongs to someone else and the designated financial institution accepts the deposit, the taxpayer must work directly with the respective financial institution to recover his/her funds.

3. Educating clients about how to designate a split refund.

Splitting a refund into two or three accounts is easy. Your clients simply need to complete and attach Form 8888, *Direct Deposit of Refund*, to their returns, providing their account and routing numbers and telling the IRS how much to deposit to each account. A draft of the new Form 8888 is posted IRS.gov/.



Speed, safety and choice — with direct deposit you can have it all! Split your refund among as many as three accounts.

Visit IRS.gov for more information.

4. Educating clients about how the IRS will adjust and deposit refunds in the case of mistakes on returns, refund offsets to delinquent federal or state taxes, child support, student loans, etc., or Earned Income Tax Credit verification issues, so clients can wisely choose which account to list first, second, etc.

The order in which clients list accounts could make a difference if the IRS needs to reduce refund amounts to allow for mistakes on returns, refund offsets for delinquent federal taxes or to withhold the EITC portion of refunds pending eligibility verification. Clients may want to list the account they use for immediate living expenses first.

If the IRS must reduce a refund, the agency will use a bottom-up rule and first deduct the difference from the amount designated for the last account. If the difference exceeds the amount designated for the last account, the IRS will deduct the remainder from the amount designated to the next account, etc.

Example: The taxpayer's return shows a refund of \$300, and the taxpayer asks the IRS to split the refund among three accounts with \$100 to each account. Due to a math error, the refund is decreased by \$150. The IRS will adjust the taxpayer's direct deposits as follows:

	Requested	Actual direct deposits
Account 1:	\$100	\$100
Account 2:	\$100	\$50 (\$100 requested less \$50 adjustment)
Account 3:	\$100	\$0 (\$100 requested less \$100 adjustment)

If the IRS withholds the EITC portion of a refund and later determines the taxpayer is eligible to receive the credit, the IRS will deposit the withheld amount into the first account listed.

Taxpayers will receive letters from the IRS explaining any adjustments to their returns, refund amounts and direct deposits. Information about refund adjustments also will be available through *Where's My Refund?* on **www.irs.gov** or by calling **1.800.829.1954**.

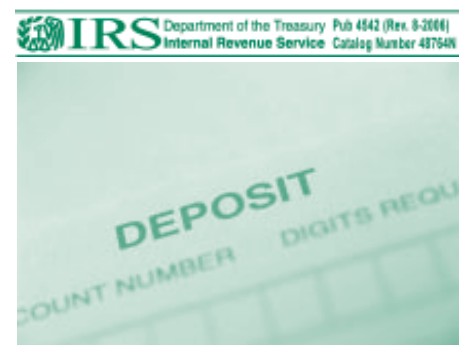
Note: If a taxpayer owes delinquent state income taxes, back child support or delinquent non-tax federal debts such as student loans, etc., the Department of Treasury's Financial Management Service, which disburses IRS refunds, may offset the refund for the delinquent amount. This can occur whether taxpayers receive their refunds via paper check or direct deposits to one or more accounts.

In the case of split refunds, FMS will deduct the past-due amounts from the payment that appears first on the payment file received from the IRS (the IRS payment file orders accounts from the lowest to the highest routing number). If the debt exceeds the payment designated for the account that appears first on the payment file, FMS will reduce the payment designated for the account that appears next, etc.

Taxpayers will receive letters from FMS explaining any offset amounts, the agencies receiving the payments, the address and telephone number of the agencies and amounts of their refunds or direct deposits offset. Taxpayers who dispute the debts should contact the agencies shown on the notice, not the IRS, since the IRS has no information about the validity of the debt. Information about refund offsets also will be available through *Where's My Refund?*

5. Encouraging clients to e-file through a volunteer tax preparation site or use Free-File online at IRS.gov for the most error-free return and fastest direct deposit.

Your clients who file electronically and opt for direct deposit can have access to their funds within two weeks. It's that fast; it's that easy.



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